

Message Text

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ACTION EA-09

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SUBJECT: VISIT OF UNION OIL CHAIRMAN TO INDONESIA

1. FRED L. HARTLEY, CHAIRMAN OF BOARD UNION OIL, VISITED INDONESIA MAY 3-6. TRIP WAS ARRANGED DURING MINISTER WIDJOJO'S MEETING WITH UNION OIL EXECUTIVES LAST MONTH IN NEW YORK. GOI EXTENDED ROYAL WELCOME TO HARTLEY WHICH INCLUDED UNPRECEDENTED MEETINGS WITH PRESIDENT SUHARTO, WIDJOJO, SADLI, WARDHANA, WIJARSO AND HARYONO. HARTLEY TERMED VISIT "REAL SUCCESS" AND FEELS INDONESIANS NOW HAVE MUCH GREATER DEGREE OF FLEXIBILITY ON QUESTION OF LIBERALIZED OIL INCENTIVES. HARTLEY GAVE US FOLLOWING IMPRESSIONS ABOUT HIS MEETINGS.

2. HIGHLIGHT WAS CALL ON PRESIDENT MAY 5. SUHARTO, WHO APPEARED WELL BRIEFED, DELIVERED OFT-REPEATED LINE ABOUT INDONESIA'S STABILITY, STRESSED OIL COMPANIES' ROLE IN INDONESIANS ECONOMIC DEVELOPMENT, AND ASSURED HARTLEY LONG-RANGE COOPERATION BETWEEN GOI-UNION WOULD CONTINUE. PRESIDENT ALSO ASKED HARTLEY QUESTIONS ABOUT NEW CARTER ENERGY PROGRAM. WHAT IMPACT WOULD IT HAVE ON INDONESIAN EXPORTS TO U.S., PARTICULARLY IN VIEW OF ALASKAN OIL?

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HARTLEY RREPLIED THAT INTIAL EFFECTS ON INDONESIAN CRUDE SALES WOULD NOT BE SERIOUS. INDONESIA'S PREMIUM LOW SULFUR OIL WOULD CONTINUE FIND MARKETS IN WEST COAST. HARTLEY DOWNPLAYED ALASKAN OIL ALTHOUGH HE NOTED FULL PRODUCTION LATER IN 1978 COULD CAUSE SOME TEMPORARY DISLOCATION. HARTLEY ALSO DISCUSSED UNION POSITION ON INCENTIVES, OFFERING HIS VIEWS ON WHAT COMPANIES WERE

LOOKING FOR IN INDONESIA.

3. WITH WIDJOJO AND SADLI, HARTLEY REVIEWED IN MORE
DETAIL NEED FOR GREATER LIBERALIZATION OF OIL INCEN-
TIVES. RECENT PERTAMINA PACKAGE WAS HELPFUL FOR DEVELOP-
MENT OF AREAS NEARBY PRODUCING FIELDS BUT NOT ENOUGH TO
STIMULATE EXPLORATION IN TRULY REMOTE OR DEEPWATER LO-
CATIONS. UNION EXECUTIVES POINTED OUT HOW INDONESIA
MUST COMPETE WITH NORTH SEA AND ELSEWHERE FOR INVESTMENT
MONEY. WIDJOJO ASKED MANY QUESTIONS AND EXHIBITED
STRONG INTEREST IN UNION'S PRESENTATION. ONE EXECUTIVE
SAID WIDJOJO APPEARED TO BE "CHANGED MAN" ON ISSUE OF
OIL INCENTIVES COMPANIES. AT LUNCHEON HONORING
HARTLEY, SADLI CANDIDLY ADMITTED GOI HAD GONE "TOO FAR"
ON LAST YEAR'S REVISED TERMS.

4. HARTLEY MADE PROGRESS ON IRS MATTER DURING MEETING
WITH MINFIN WARDHANA. UNION EXECUTIVES POINTED OUT
PROBLEMS CAUSED BY PAYMENT OF TAXES IN KIND OR TAX OIL
UNDER TERMS OF REVISED PRODUCTION-SHARING CONTRACTS.
WARDHANA STATED DEPARTMENT OF FINANCE HAD ESSENTIALLY
NO INTEREST IN TAX PAYMENTS IN OIL, PREFERRING INSTEAD
TAX PAYMENTS IN CASH.

5. QUESTION OF GEOTHERMAL ENERGY CAME UP. SADLI AND
HARYONO STRESSED GOI INTEREST IN DIVERSIFICATION OF
ENERGY SOURCES. THERE WAS SOME DISCUSSION OF PREVIOUS
UNION PROPOSAL WHICH CALLED FOR TECHNICAL ASSISTANCE
CONTRACT WITH COST RECOVERY AND GUARANTEED 20 PERCENT
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RATE OF RETURN. NO DECISIONS APPARENTLY REACHED.

6. COMMENT: UNION OFFICIALS SEEMED GENUINELY PLEASED
OVER OUTCOME OF MEETINGS. HARTLEY VISIT MARKED FIRST
TIME OIL EXECUTIVE HAS SEEN FULL ARRAY OF GOI DECISION-
MAKERS INCLUDING WIDJOJO SINCE START OF NEGOTIATIONS
IN LATE 1975. UNION ENJOYS GOOD REPUTATION HERE SINCE
IT WAS FIRST COMPANY TO SIGN (ALBEIT RELUCTANTLY) REVISED
PRODUCTION-SHARING CONTRACT LAST SUMMER. COMPANY HAS
ALSO NEVER UNDERLIFTED ITS CRUDE UNLIKE OTHER CONTRACTORS.
FOR GOI VISIT SEEMED TO INDICATE DEGREE OF SERIOUSNESS
GOVERNMENT ATTACHES TO GETTING OIL EXPLORATION RESUMED.
NEWSOM

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